UNION GAS LIMITED

ANNUAL REPORT,
YEAR ENDED MARCH 31, 1973

The Company, which is engaged in purchasing, producing, storing, transmitting and distributing natural gas in numerous municipalities in Southwestern Ontario, has the following wholly-owned subsidiaries:

United Gas Limited
Distributing natural gas in the city of Hamilton, the towns of Oakville, Burlington, Dundas, Milton, Georgetown, Stoney Creek and Acton, and areas adjacent to these municipalities.

Union Gas Investments Limited
A company incorporated to engage in businesses other than the distribution and marketing of natural gas.

Annual Meeting of Shareholders

Shareholders are cordially invited to attend the Annual Meeting to be held at the Head Office of the Company, 50 Keil Drive North, Chatham, Ontario, on Thursday, June 14, 1973, at 11 o'clock a.m. (Eastern Daylight Time).

Contents

CONSOLIDATED COMPARATIVE HIGHLIGHTS Fiscal years ended March 31

	1973	1972	1971
Net income for the year	**$ 16,018,000**	$ 14,497,000	$ 12,739,000
Dividends on preference shares	**$ 1,038,000**	$ 1,046,000	$ 1,060,000
Earnings applicable to common shares	**$ 14,980,000**	$ 13,451,000	$ 11,679,000
Earnings per common share	**99.1¢**	89.0¢	77.3¢
Dividends declared on common shares:			
Total	**$ 9,672,000**	$ 8,990,000	$ 8,761,000
Per share	**64.0¢**	59.5¢	58.0¢
Natural gas sales *MCF	**202,696,000**	173,251,000	161,421,000
Gross revenue from gas sales	**$151,416,000**	$131,577,000	$122,326,000
Total customers at year end	**362,000**	347,000	335,000
Average gas use per customer *MCF			
Residential	**140.9**	133.5	135.7
Commercial	**925.8**	790.5	730.0
Maximum day send-out *MCF	**1,810,000**	1,796,000	1,638,000
Gross Property Account at year end	**$341,820,000**	$312,458,000	$290,127,000

(*MCF means thousand cubic feet)

Adoption of the Company's new symbol and signature is being carried out gradually, in order to accomplish the transition in an efficient manner. For example, it will likely be several years before application of the new design to all Company trucks has been completed.

BOARD OF DIRECTORS

John D. Bradley, *Chatham*
President, Bradley Farms Limited and First Chatham Corporation Limited
Colin S. Glassco, *Hamilton*
Chairman of the Board, Southam Printing Limited
C. Malim Harding, O.B.E., *Toronto*
Chairman of the Board and Chief Executive Officer, Harding Carpets Limited
F. W. P. Jones, *London*
Professor, School of Business Administration, University of Western Ontario
H. B. Keenleyside, C.B.E., *Toronto*
Company Director
F. R. Palin, F.C.A., *Chatham*
Director and Consultant, Union Gas Limited
David P. Rogers, *Toronto*
Company Director (Chairman of the Board, Union Gas Limited, to March 31, 1973)
Ian C. Rush, F.C.I.C., *Sarnia*
President and Chief Executive Officer, Polysar Limited
W. Dent Smith, LL.D., *Wilmington, Delaware*
Company Director
Ron W. Todgham, *Windsor*
President, Chrysler Canada Limited
David G. Waldon, *Toronto*
President, Interprovincial Pipe Line Company
Bruce F. Willson, P.Eng., *Chatham*
President and Chief Executive Officer, Union Gas Limited
Donald J. Wright, Q.C., *Toronto*
Partner, Lang, Michener, Cranston, Farquharson and Wright

PRINCIPAL OFFICERS

Ron W. Todgham, *Chairman of the Board*
Bruce F. Willson, P.Eng., *President and Chief Executive Officer*
F. Capewell, *Vice-President, Operations*
R. G. Caughey, P.Eng., *Vice-President, Gas Supply*
J. W. S. McOuat, Q.C., *Vice-President, General Counsel and Secretary*
W. G. Stewart, C.A., *Vice-President, Finance*
G. I. Wonnacott, *Vice-President, Industrial Relations*
R. G. James, B.Comm., *Treasurer*
G. E. Miller, C.A., *Comptroller*

LONDON DISTRICT ADVISORY COMMITTEE

W. L. Duffield, *Chairman*
P. A. DuMoulin
H. K. Ingram, V.D.
J. H. Stevens

LETTER TO THE SHAREHOLDERS:

Demand for energy in Southwestern Ontario continued to rise during the fiscal year ended March 31, 1973 and new records in sales and earnings were established by Union Gas Limited. Gas sales revenue was $151.4 million, an increase of 15% over the 1972 fiscal year, and net income of $16 million was 11% greater. After providing for dividends on preference shares, earnings per common share were 99¢, compared with 89¢ in the previous year.

Federal and Provincial special short term income tax credits reduced the provision for income taxes for fiscal 1973 $1.6 million below normal levels, thus contributing significantly to the earnings reported. However, these corporate tax reductions have not been continued and the Company will be paying higher Federal and Provincial income tax rates than was the case in fiscal 1973. In addition, the increase in the capital and sales tax rates announced in April by the Province of Ontario will add to the Company's already substantial tax burden.

The cost of gas for fiscal 1973 increased 20% over the prior fiscal year. This was due partly to the larger sales volume and partly to the fact that greater volumes are being purchased from TransCanada PipeLines Limited under contracts which specify higher unit prices. Also, the cost of gas being purchased from Panhandle Eastern Pipe Line Company has increased substantially. Higher gas costs may be expected in the future for reasons outlined in the following paragraphs.

Regulatory matters were among the most important concerns of management during the year. The long awaited Decision of the National Energy Board on the Application by TransCanada PipeLines for increased rates is expected to be announced shortly. TransCanada is our major gas supplier and this decision will have a significant impact on system gas costs.

Union has applied to the Ontario Energy Board for a review of the Company's rates. The Energy Board will hold public hearings following which it will determine the Company's rate base, allowable rate of return and overall costs of service, in order that the annual revenue requirements of the Company, and ultimately new rate schedules, may be established. In this application we have requested that an interim rate increase be granted to offset the higher gas costs which result from the current TransCanada and Panhandle rate revisions, and that provision be made for a $3 minimum monthly bill per customer.

As stated in last year's annual report, Union Gas began on January 1, 1972 to pay an additional 2.1¢ per mcf for gas delivered from TransCanada under existing contracts. The two other major Ontario gas distributors have been making similar payments. This increase was agreed to by the distributing companies so that TransCanada would be able to arrange financing of the additional transmission facilities needed to transport adequate volumes of gas to meet market requirements during the past winter period. The additional cost to Union as at March 31, 1973, amounted to $4.7 million. This amount has not been charged to expense but is being deferred with the approval of the Ontario Energy Board, until a method of amortizing the cost is decided at Union's forthcoming rate hearing.

TransCanada has recently announced that it will apply to the National Energy Board for a further increase. TransCanada faces increasing wellhead prices and higher rates charged by other pipeline companies for the gathering and transmission of gas. Union again intends to participate in the hearing of TransCanada's application, with the object of ensuring that the Company's share of any ultimate cost increase is no more than just and reasonable.

Market demand remains very strong in the Union Gas service territory. However, we have not yet been able to arrange for the additional volumes necessary to provide for sales growth beyond 1974. TransCanada PipeLines, the source of approximately 90% of Union's total gas supplies, has contracted in Alberta for new reserves which have been determined to be surplus to that province's 30-year domestic requirements. However, the Alberta government has announced that it is not prepared to grant the necessary permits for removal of this gas from the province unless TransCanada agrees to pay the much higher prices called for in its new natural gas pricing policies. These policies require an immediate increase of at least 10¢ per mcf in the wellhead price. They also require that prices be renegotiated every two years. We understand that the Alberta government is insisting upon a minimum price of 34¢ per mcf by November 1, 1975, more than double present prices.

In a further move, the Alberta government has directed its Energy Resources Conservation Board to enquire into and reconsider a permit for the removal of gas granted to Consolidated Natural Gas Limited, a subsidiary of Northern Natural Gas Company of Omaha. The gas covered by this permit has been contracted for by TransCanada which, in turn, has entered into agreements for the sale of this gas to Union and its other customers. Insofar as Union is concerned, this gas forms part of the volumes covered by the gas purchase contract under which deliveries com-

menced November 1, 1972, and represents all volumes in the most recent gas purchase agreement calling for deliveries to commence November 1, 1973. If Alberta were now to deny these volumes to TransCanada, it would be impossible for the Eastern Canadian distributors, including Union Gas, to meet all connected market demands during the forthcoming winter. In our opinion, there should be no question of the sale and delivery of this gas by TransCanada since that company appears to have met all of the requirements demanded of the original purchaser. Clearly the gas is needed in Canadian markets.

With the outlook for increasing costs of gas in the field, it is apparent that rate proceedings will be in progress almost continuously in the future. Because of the inherent lag in the regulatory process due to lengthy public hearings, we are hopeful that the various commissions will be empowered to authorize interim rate increases equivalent to the rise in gas costs. These increases would be refundable to the extent that they may be found excessive after a subsequent rate hearing, but would enable utility companies to finance plant expansions necessary to satisfy public demand.

While the foregoing indicates some of the Company's problems, particularly in the areas of gas supply and pricing, we are nonetheless convinced:

(a) that given proper governmental protective policies, Canada has adequate supplies of gas to meet Canadian demands, including those in Union's service territory, for many years to come, and

(b) although significant gas cost increases must be anticipated and may affect certain categories of gas sales, particularly in the industrial sector, trends in the costs of alternative fuels would indicate that the Company can reasonably anticipate continued growth in sales in the future.

As evidence of this confidence, and based on contracted gas supply, your Board has approved a $33 million capital expenditure program for fiscal 1974, most of which will be spent on extensions and capacity increases to serve new business.

The management and directors are quite conscious of the Company's need for additional diverse sources of income. With this in mind, and anticipating a future need for frontier gas, Union last fall became a participant in Canadian Arctic Gas Study Limited. This company has been formed to plan, design and obtain approvals for the construction of a large diameter transmission pipeline to carry Alaskan and Mackenzie River Delta gas to markets in Canada and the United States. It is anticipated that applications will be filed during 1973 for the necessary regulatory hearings before the Canadian and U.S. authorities for approval of the project. These public proceedings are expected to be quite lengthy and, as a result, it is difficult to predict the timing of actual construction and operation of the pipeline. Union's investment in the project of $1,175,000 as at March 31, 1973 is included as a deferred asset in the accounts pending the decisions of the regulatory authorities.

During the 1973 fiscal year, in addition to Messrs. John D. Bradley and David G. Waldon, who were elected to the Board of Directors at the Annual Meeting of Shareholders on June 29, 1972, Mr. Ian C. Rush, President and Chief Executive Officer of Polysar Limited, was appointed to the Board in December 1972. Also during the past year, Mr. F. R. Palin, who served the Company as President from 1963 to 1971, resigned as Vice-Chairman of the Board. Mr. David P. Rogers retired as Chairman of the Board of Directors after fifty years of distinguished service. While both Mr. Rogers and Mr. Palin have continued to serve as directors they have declined to stand for re-election at the forthcoming Annual Meeting of Shareholders. Mr. Ron W. Todgham was appointed Chairman of the Board effective April 1, 1973. Mr. Todgham is President of Chrysler Canada Limited and has served as a director of Union Gas since 1964.

The continuing excellent efforts of all employees in maintaining the Company's high standard of service are gratefully acknowledged.

On behalf of the Board of Directors,

Ron Todgham

Chairman of the Board

B. F. Wilson

President and Chief Executive Officer

Chatham, Ontario, May 11, 1973

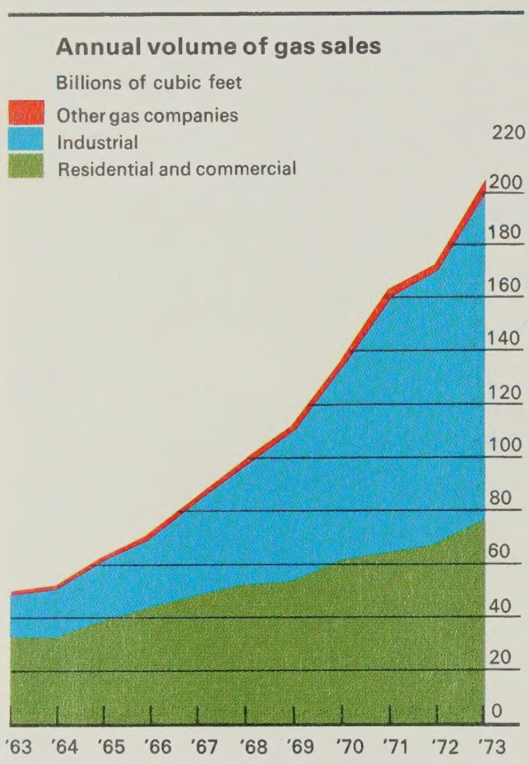
Canadian Arctic Gas Study Limited, of which Union is a member, has conducted numerous tests to determine the impact of pipeline construction and operation on northern ecology. Shown here are the test facilities at Sans Sault, one of three locations where this type of work has been carried out.

IN REVIEW – the fiscal year ended March 31, 1973

OPERATING RESULTS

The results of the operations of Union Gas Limited and its subsidiaries on a consolidated basis for the fiscal year ended March 31, 1973, as compared with the previous year, were as follows:

	Fiscal years ended March 31		Increase or decrease (–)
	1973	1972	1973 over 1972
	($000's)		
Revenue:			
Gas sales	**$151,416**	$131,577	$ 19,839
Other income	**13,105**	11,845	1,260
	164,521	143,422	21,099
Operating expenses and interest:			
Cost of gas sent out	**86,453**	72,166	14,287
Other operating and maintenance expense	**28,878**	26,304	2,574
Property and capital taxes	**3,462**	3,346	116
Depreciation	**6,596**	5,977	619
Interest and expense on long term debt	**8,935**	7,718	1,217
Other interest	**1,294**	1,563	(–)269
	135,618	117,074	18,544
Income before income taxes	**28,903**	26,348	2,555
Income taxes	**12,885**	11,851	1,034
Consolidated net income for the year	**16,018**	14,497	1,521
Dividends on preference shares	**1,038**	1,046	(–)8
Earnings applicable to common shares	**$ 14,980**	$ 13,451	$ 1,529
Earnings per common share	**99.1¢**	89.0¢	10.1¢
Common share dividends declared:			
Total amount	**$ 9,672**	$ 8,990	$ 682
Per share	**64.0¢**	59.5¢	4.5¢

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GAS SALES REVENUE AND OTHER INCOME

Total revenue received in fiscal 1973 was $164.5 million, an increase of $21.1 million, or nearly 15%, over that for the previous year.

Gas sales revenue of $151.4 million was $19.8 million, or 15%, more than for the prior year. Gas sales to all classes of customers showed satisfactory increases, reflecting the high level of building activity, the cooler weather and an improved economic climate. The total of 361,691 customers being served at March 31, 1973 is an increase of 14,685. This is the largest increase ever recorded in the Company's service territory during one year.

Other income totalled $13.1 million, an improvement of $1.3 million, or 11%. Increases were recorded in revenue from the transmission of gas for others; income from rental of gas equipment; earnings on merchandise time payment contracts; and revenue from service work for customers.

The supplies of gas presently available to the Company provide adequate volumes for all segments of the market with the exception of some major industrial demand. In the residential and commercial markets keen

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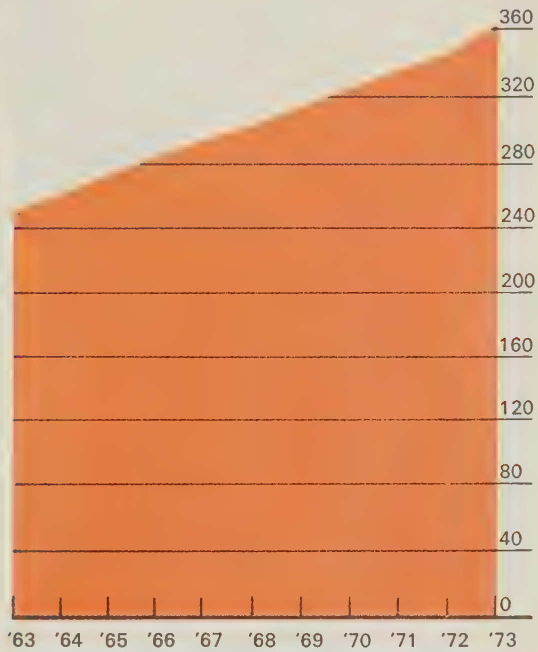
1. *Major projects last year included laying 10.4 miles of 24-inch pipeline between Bickford storage pool and Dawn station.*

2. *The new line crosses the west branch of the Sydenham River, near Wilkesport. Associated with this project was construction of a gathering system connecting the storage wells. It included 2,600 feet of 20-inch and 10-inch line.*

3. *Natural gas is used at Brantford in the manufacture of valves, elbows, reducers and other pipe fittings for the plumbing and gas industries. Shown here, six-inch flanges are being removed from a gas-fired furnace after receiving heat treatment at 1650° F.*

Number of customers served

Thousands of customers



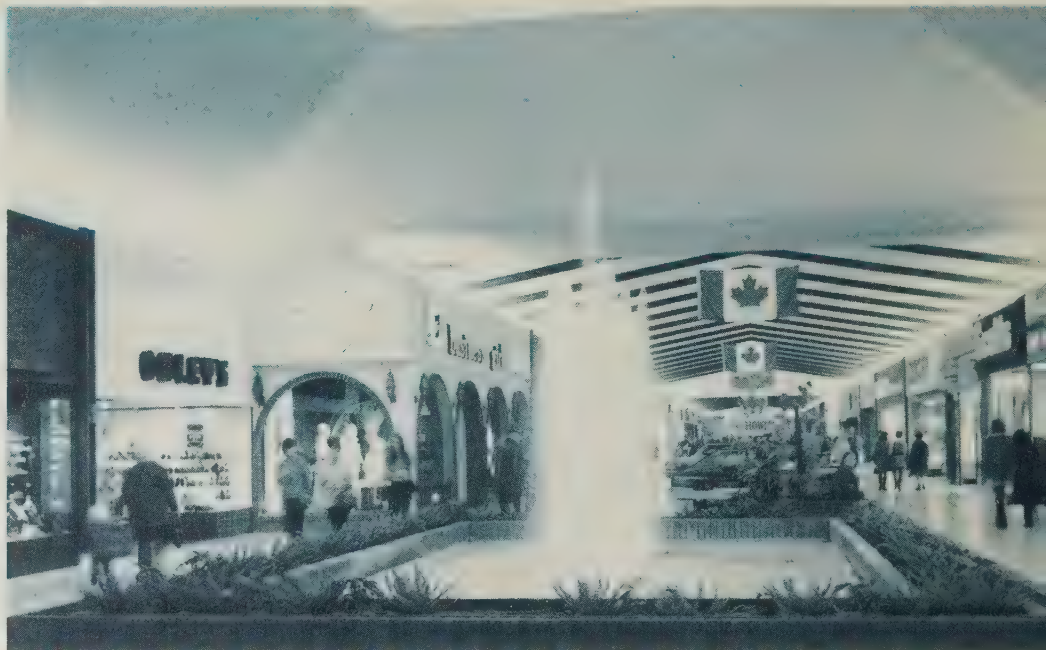
competition exists from other energy suppliers. The marketing plans of the Company are designed to obtain loads such as water heating, air conditioning, cooking and clothes drying, which will contribute to the most efficient utilization of our facilities.

Gas sales volume and gross revenue for the fiscal year ended March 31, 1973, by class of customer and percentage change from the previous year, are shown in the table below:

GAS SALES VOLUME AND GROSS REVENUE

	Volume in millions of cubic feet			Revenue in thousands of dollars		
	Year to March 31 1973	% of total	% over previous year	Year to March 31 1973	% of total	% over previous year
Class of customer:						
Residential	44,294	21.9	9.7	$ 50,561	33.4	9.5
Commercial	31,881	15.7	19.2	29,405	19.4	17.3
Industrial	121,863	60.1	19.4	68,652	45.3	18.6
Other gas distributors for re-sale	4,658	2.3	13.9	2,798	1.9	14.8
Total	202,696	100.0	17.0	$151,416	100.0	15.1

In Review continued



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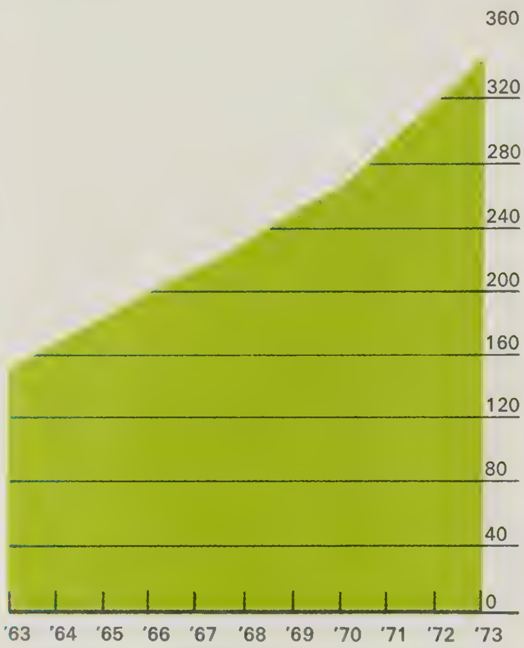
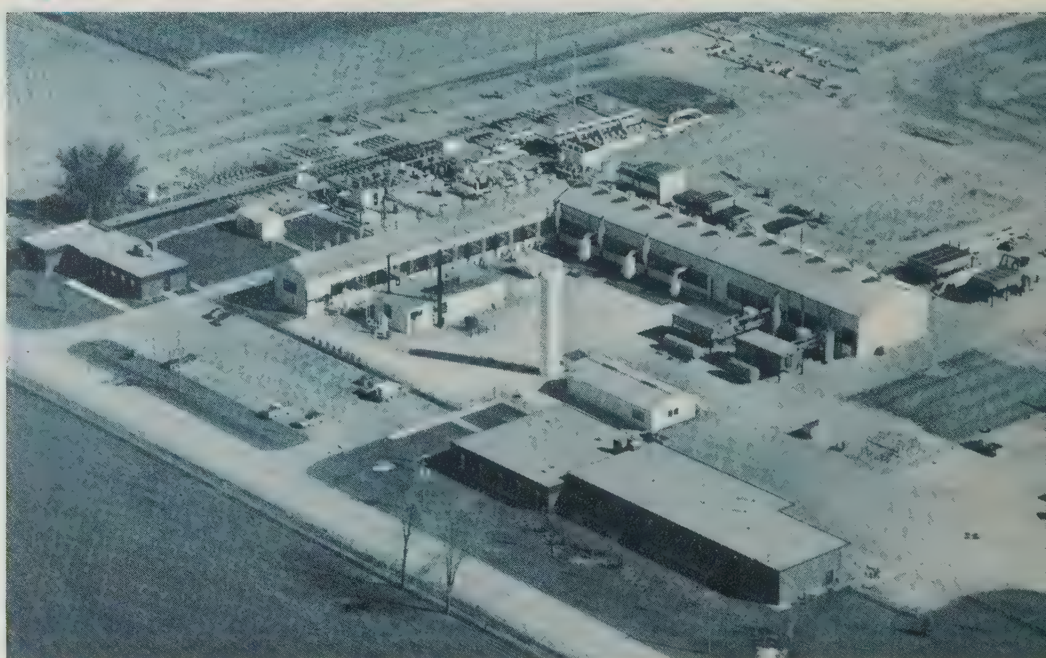
Gross property account

Millions of dollars





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OPERATING EXPENSES AND INTEREST

Total expenses increased $18.5 million, or 16%, to $135.6 million. Cost of gas sent out increased 20%. This increase results from the greater sales volume as well as the higher prices in effect for purchases from TransCanada Pipe-Lines under recent contracts and increased rates charged by Panhandle Eastern Pipe Line Company. The increased gas cost does not, however, include the additional 2.1¢ per mcf being paid to TransCanada as described on Page 4. Had this been included the cost of gas would have been up 23% from the previous year.

The increase in other operating and maintenance expenses of 10% reflects increases in wages, salaries and related employee benefit costs, as well as higher prices paid for materials, supplies and services due in part to inflation. Included also are the costs of that part of the Company's exploration program related to unsuccessful drilling projects.

Municipal taxes and depreciation costs increased in line with the expansion in property investment.

Total interest expense was up by 10% due to increases in long term debt required to finance additions to properties.

CAPITAL STRUCTURE

At March 31, 1973 total capitalization was as follows:

Common shares . . . .

Accumulated earnings retained for use in the business . . . .

Preference shares . . . .

Long term debt (exclusive of portion to be retired within 12 months and carried on the balance sheet as a current liability) . . . .

Total capitalization . . . .

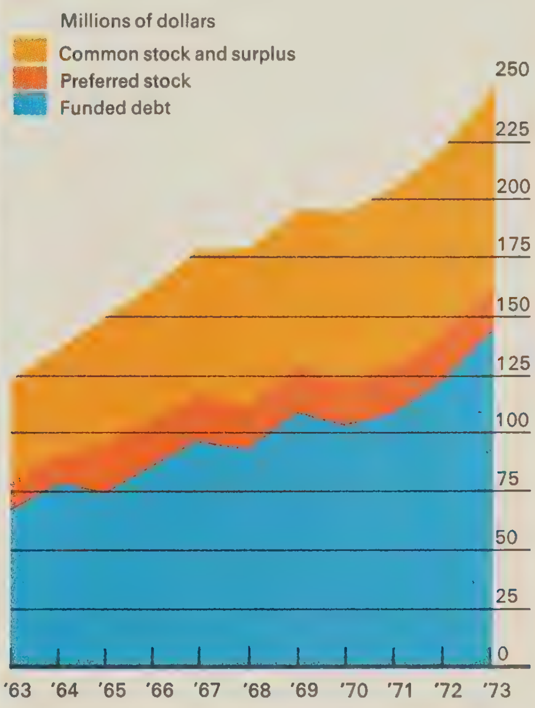
3

1. Many shopping centres throughout Union Gas service territory utilize natural gas service extensively. Among them is Devonshire Mall at Windsor, which uses gas throughout most of the complex for space heating and water heating purposes.

2. Dawn compressor station, control centre for the Company's transmission and storage operations, is located in Lambton county, about 20 miles southeast of Sarnia. For more particulars on the key role played by this station, please refer to the feature article which begins on Page 15.

3. Rock salt, mined some 975 feet underground at Windsor, is brought to the surface in large chunks and crushed into proper-sized granules. Smaller particles are dried by natural gas heat, compacted, re-crushed and then mixed with other rock salt for highway use.

Capital structure



	($000's)	% of total
. . . .	$ 31,346	
. . . .	54,715	
	86,061	34.8
. . . .	18,986	7.7
	105,047	42.5
. . . .	141,891	57.5
. . . .	$246,938	100.0

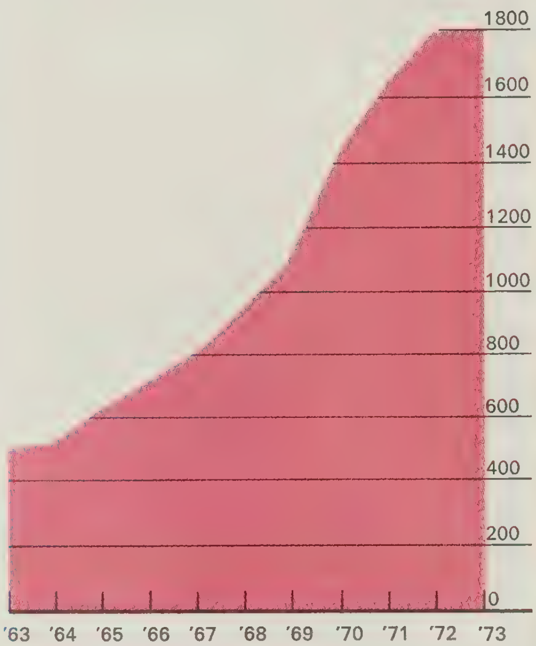
On November 15, 1972 the Company sold $15 million 8⅜% Sinking Fund Debentures in Canada and $10 million (U.S.) 8% Sinking Fund Debentures in the United States, both issues maturing November 15, 1992. The proceeds reduced short term loans incurred to finance plant construction.

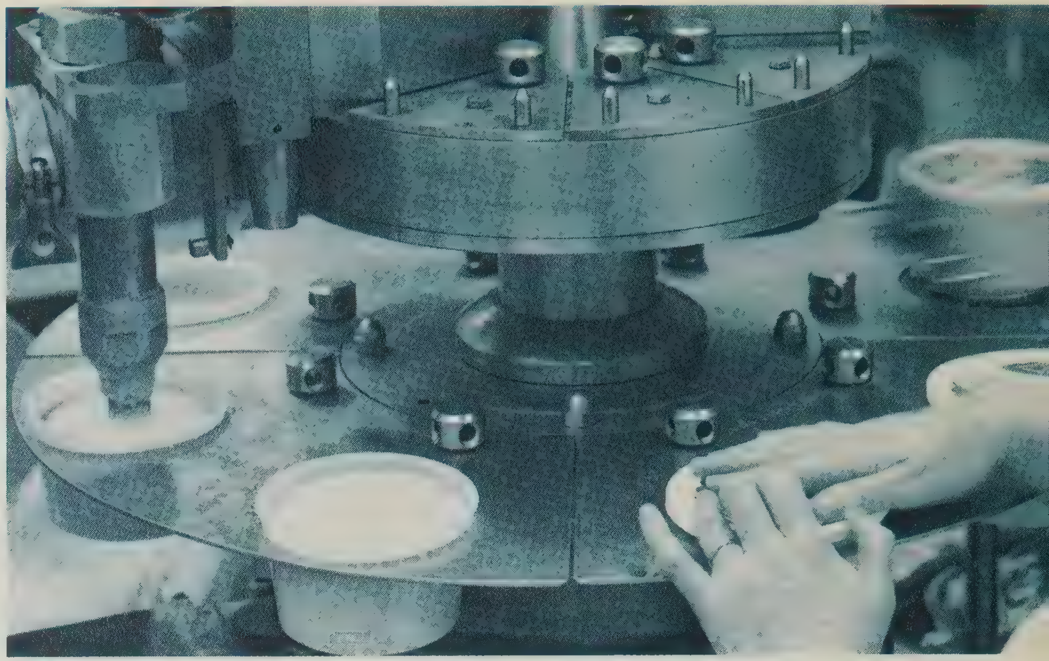
GAS STORAGE

In the 1973 fiscal year the Company commenced storage operations under the terms of a joint arrangement with Imperial Oil Limited providing for the use by the Company of two depleted gas pools in Lambton county, with an ultimate working storage capacity of 16 billion cubic feet. Some 5.5 billion cubic feet have now been injected into the larger of these two pools in order to provide necessary working storage pressures. This brings the total volume of base pressure gas included in the accounts as part of the Company's storage plant investment to 33.3 billion cubic feet. Total working capacity of the pools presently designated for storage use is now 63 billion cubic feet, which will be adequate to hold the volumes of gas in excess of market requirements anticipated to be received from the pipeline suppliers during the warmer months

Maximum day send out

Millions of cubic feet





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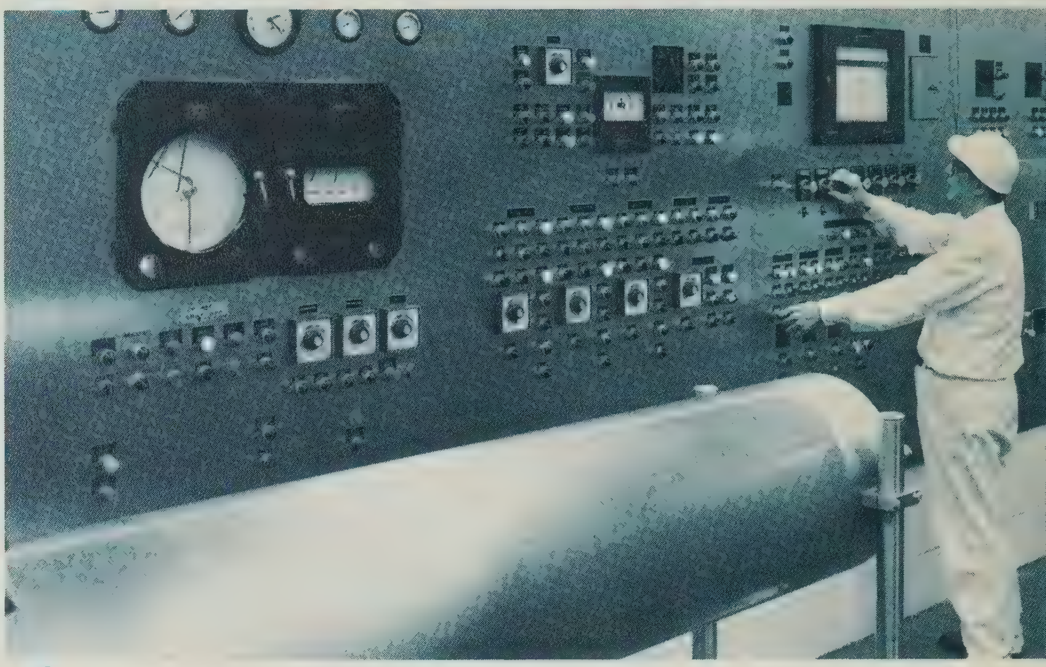

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of 1973. Additional underground storage capacity can be developed by the conversion of former gas producing pools in Lambton county as required in the future.

GAS SUPPLY

In fiscal 1973 the Company purchased and produced 208.7 billion cubic feet of gas, an increase of 32.5 billion cubic feet, or 18%, over the previous year.

TransCanada PipeLines deliveries were close to the total maximum volumes contracted for. However, due to construction delays and continuing restrictions on maximum pipeline

GAS PURCHASED AND PRODUCED

	Volumes in millions of cubic feet			
	Year to March 31 1973	% of Total	Year to March 31 1972	% of Total
Source:				
Western Canadian Producers	185,862	89.1	151,631	86.1
Ontario Producers	6,094	2.9	8,264	4.7
Other	14,874	7.1	14,664	8.3
Total purchased	206,830	99.1	174,559	99.1
Produced from Company Wells	1,888	.9	1,661	.9
Total Gas Supply*	208,718	100.0	176,220	100.0

*Excluding gas transmitted and stored for other companies.

3

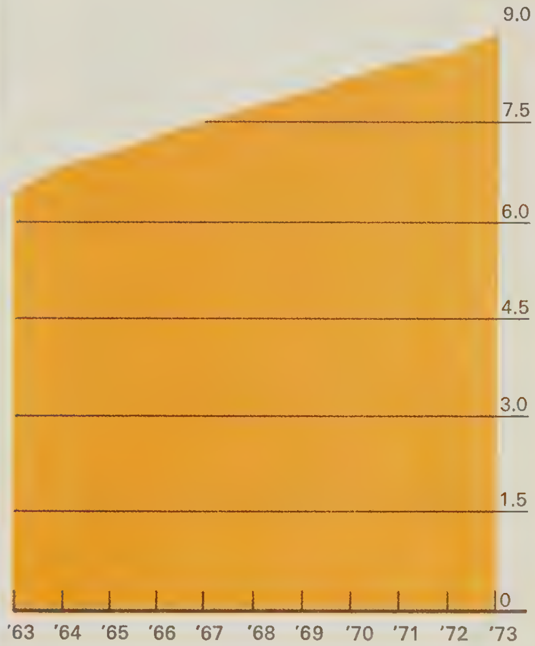
1. New London plant makes a wide variety of ice cream products, including the sherbet shown being packed here.

2. All of the plant's operations are controlled from this computerized panel. Natural gas provides the large volumes of hot water required to keep plant equipment spotless. Gas also produces the steam needed for pasteurization. In fact, the gas applications proved so successful that an older plant has since been converted.

3. This strikingly new structure was erected recently at Chatham to house Kent county's municipal offices. Modern in both design and decor, the building is heated by natural gas and also depends on gas for its hot water requirements.

Miles of pipeline

Thousands of miles



pressures being experienced by its affiliate, Great Lakes Gas Transmission Company, TransCanada was unable to make up a deficiency of some 9 billion cubic feet which had occurred in the 1972 fiscal year. Failure to obtain this gas as anticipated made it necessary for Union to curtail certain deliveries under interruptible contracts. Receipts from Panhandle Eastern Pipe Line Company were close to the maximum volume under contract as that Company was able to obtain additional short term supplies and, on average, met 96% of its customers requirements last year.

Supplies from independent Southwestern Ontario producers again declined from the previous year and it is expected that this trend will continue as the gas fields become further depleted.

The Company drilled 17 wells in Southwestern Ontario and 10 in Western Canada during fiscal 1973. The Company's exploration activities in Ontario were unsuccessful and a decision has been made to have further exploration of most of the remaining Company leaseholds conducted by other parties under farmout agreements. In Western Canada modest reserves were found at two locations. The discovery wells have been capped pending the negotiation of sales contracts.

The Company anticipates receiving increased deliveries from TransCanada PipeLines Limited during the current fiscal year. As well as the 9 billion cubic feet of makeup gas referred to earlier, additional volumes will be delivered under a contract which commenced November 1, 1972 and deliveries will begin November 1, 1973 under the most recent contract negotiated about a year ago. Total deliveries to Union Gas from TransCanada PipeLines in fiscal 1974 are planned at 221 billion cubic feet, as-

suming there are no new restrictions imposed by the Province of Alberta.

RESEARCH AND DEVELOPMENT

With increasing emphasis on research and development programs designed to meet the energy challenge facing North America, the Company continues to support the activities carried out by the Canadian Gas Association and the American Gas Association. These organizations are seeking improved ways to produce, transmit and market natural gas, as well as developing more efficient gas utilization equipment, providing public information and conducting professional and technical seminars for the industry.

In addition, Union Gas has recently become a member of the Institute of Gas Technology (I.G.T.), of Chicago, an organization which conducts one of the largest and most diversified gas related research and development programs in North America. A major research project at I.G.T. is that of coal gasification and during 1972 the initial pilot plant facility was placed in operation with encouraging results. Another important research program involves the development of a fuel cell using natural gas to produce electrical power. The inherent high efficiency and clean operation of this method of producing power may help alleviate the energy supply problem as well as assist in protecting the quality of the environment.

SYSTEM EXPANSION

The planned capital expenditure program for the 1974 fiscal year, to extend and improve the Company's pipeline system and other facilities, totals some $33 million. The program will enable the Company to expand sales volume by 10% over the prior year, an increase geared to the available gas supply. Major outlays are required for the construction of a new compressor station to increase the capacity of the main transmission system extending from the Lambton county storage fields to Oakville, and for the construction of line extensions to provide service to an estimated 16,600 new dwelling units in the 250 communities served by the Company.

Financing for this program will be provided in part from internally generated funds and in part from the proceeds of a new $20 million 8¼% Debenture Series to be issued June 1, 1973.

IT HAD TO BE ONE OF THE MOST HECTIC DAYS EVER

The date was February 16, 1973 and even in the "banana-belt" Chatham area the mercury dipped below zero.

That was the day Union Gas customer demands for natural gas exceeded one billion cubic feet in a single 24-hour period, for the first time in the Company's history. And that did not include the large volumes of gas transmitted for other companies.

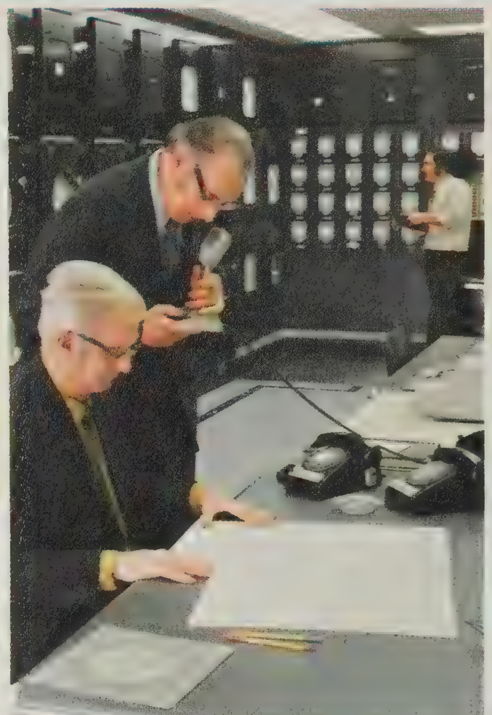
The bulk of this gas travelled through some portion of the Company's 26-inch and 34-inch pipelines. Stretching across Southwestern Ontario like a super highway, these two lines alone have a gas delivery capability of more than 1.5 billion cubic feet daily. They extend from Dawn compressor station, heart of the Company's transmission and storage operations, to the eastern end of the pipeline system – from Lambton county to Oakville – a distance of 142 miles.

Besides looking after the needs of Union Gas customers, these lines also transport gas, under contract, for both The Consumers' Gas Company and TransCanada PipeLines Limited – a vitally important job. (Union has transmitted more than 900 million cubic feet of gas for these two companies in a single day.)

The demands on these two pipelines vary drastically from season to season – even from day to day. For example, unseasonably cold weather, occurring before or after what is normally considered to be the heating season, can create a sudden and


Union's Lobo station, situated northwest of London, is equipped with two large gas turbine-powered compressors


Lobo can be operated from Dawn station


Dawn dispatchers direct flow of gas


Computer assists operations planning

significant surge in demand for natural gas – equal to almost half the requirement for the coldest winter day.

By early August the tobacco drying season is underway and demands for natural gas from Simcoe-area tobacco growers, coupled with other system requirements, can – depending on weather conditions and other factors – require a significant increase in pressure in the 34-inch line.

Late in September the tobacco harvest is over but by then it's time to start preparing for winter: Increasing line pressures, changing flow patterns and getting ready to move gas on short notice.

Accurate weather forecasting, always of prime importance, becomes critical at this point. It takes about eight hours to "pack" either the 26-inch or 34-inch line full of gas, and at least four hours to simply raise line pressure by a significant percentage.

These lead times are taken into account by our Gas Control staff, in order to meet the energy demands that accompany plunging temperatures.

During the winter season the Company depends to a large extent on gas stored under pressure in six depleted gas fields in Lambton county. The gas is placed in these storage pools during the low-demand summer months, then withdrawn as needed to supplement pipeline deliveries during peak demand periods.

During the spring and early summer, much of our purchased gas is delivered to Union's system at pressures higher than those in the storage pools and is thus able to "fall" into storage without need of compression. As the season advances, however, compressor facilities must be used to raise storage pressures to 900 pounds per square inch and more.


Gas flows through maze of pipes at Dawn

With the arrival of lower temperatures in November, the Company

ntrol centre operates compressors

Lobo station's gas turbine engines can produce a total of 35,000 horsepower

ation equipment is tested regularly

Valves undergo careful examination

Three gate stations serve London area

begins to withdraw gas from storage. In order to provide economical operation (optimum use of compression) and at the same time maintain a sufficient reserve capacity for late winter demands, the storage pools – with their varying sizes, capacities, pressures and deliverability characteristics – are operated as an integrated system.

For example, gas may be transferred from a "slow" pool to one which gives up its gas more readily, in order to maintain maximum deliverability for possible emergency situations.

Natural gas is moved through our major pipeline system by pressure . . . pressure generated by compressors churning out some 51,000 horsepower – 16,000 at Dawn and another 35,000 at our Lobo compressor station near London. At Lobo, two huge gas turbine engines add the extra boost needed to move quickly large volumes of natural gas on peak demand days.

(A third compressor station is currently under construction at Bright, about 8 miles northeast of Woodstock. This station will be powered by a 20,000 horsepower gas turbine engine. It will increase the throughput capacity of the 26/34-inch pipeline system by about 88 million cubic feet per day – approximately 11 per cent.)

Obviously, it's all-important to monitor the pressures in these two lines and this is done by means of telemetric equipment which transmits to the dispatcher at Dawn station pressure readings from key points along the 142-mile route of the lines.

At the same time, the Company utilizes a computer to simulate, in advance, the likely results of various operating procedures, so that the most appropriate one can be quickly selected to meet anticipated conditions. Still more sophisticated equipment is to be added this year, with the installation of an on-line, computerized gas dispatching system at Dawn station.

Some 80 people are directly involved in the operation and maintenance of these two pipelines. Among them is a commercial pilot who flies the route each week from April to December and monthly during the winter. Flying at altitudes ranging from 300 to 700 feet, he is on the lookout for signs of activity such as construction in the vicinity of our lines . . . activity that could lead

Pipelines are patrolled frequently by air

Urgent situations are reported by radio

Pilot watches especially for signs of construction on or near right-of-way

to pipe damage and gas supply interruption.

Following each flight the pilot submits a written report; but, if he spots something that demands urgent attention, a radio message to the Company will bring immediate action.

In addition to the air patrol, transmission personnel walk the full route of the pipelines twice a year, to carry out a close-up inspection. The trip takes them through fields, ditches, bushland, swamp and even a nudist camp.

The linewalkers check the condition of fences, stiles and footbridges, the state of pipeline markers and signs of trench settlement. They also look for evidence of damaged field tile, and examine casing vents, line valves and the condition of corrosion test points.

While air and foot patrols watch for gas leakage and carefully observe the general condition of the right-of-way, teams of gas measurement technicians inspect regularly each of eight gate stations along the route of the two lines. Each week they examine not only the stations themselves, located at take-off points for branch or lateral pipelines feeding local markets, but all gate station equipment, including the telemetry system as well.

To operate these two "big inch" lines and keep them in service with minimal interruption takes a combination of experienced, dedicated personnel and sophisticated equipment.

And the next time demands for gas suddenly hit record-setting levels, say next January, it will be this same winning combination that will do the job.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Year Ended March 31, 1973
(*with comparative figures for the 1972 year*)
UNION GAS LIMITED AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	1973	1972
	($000's)	
Revenue:		
Gas sales	**$151,416**	$131,577
Other income	**13,105**	11,845
	164,521	143,422
Operating expenses and interest:		
Cost of gas sent out	**86,453**	72,166
Other operating and maintenance costs	**28,878**	26,304
Property and capital taxes	**3,462**	3,346
Depreciation (note 1)	**6,596**	5,977
Interest and expense on long term debt (note 1)	**8,935**	7,718
Other interest expense	**1,294**	1,563
	135,618	117,074
Income before income taxes	**28,903**	26,348
Income taxes (note 2):		
Current	**6,131**	7,412
Deferred	**6,754**	4,439
	12,885	11,851
Consolidated net income for the year	**16,018**	14,497
Dividends on preference shares	**1,038**	1,046
Earnings applicable to common shares	**$ 14,980**	$ 13,451
Earnings per common share	**99.1¢**	89.0¢

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS RETAINED FOR USE IN THE BUSINESS

	1973	1972
Balance at beginning of year	**$ 49,407**	$ 44,946
Add consolidated net income for the year	**16,018**	14,497
	65,425	59,443
Deduct dividends declared (rate per annum):		
Preference shares		
Series A—$2.75 per share	**425**	433
Series B—$3.00 per share	**270**	270
Series C—$2.50 per share	**343**	343
	1,038	1,046
Common shares		
64¢ per share in 1973 and 59½¢ in 1972	**9,672**	8,990
	10,710	10,036
Balance at end of year	**$ 54,715**	$ 49,407

(*See accompanying notes*)

CONSOLIDATED BALANCE SHEET

March 31, 1973

(*with comparative figures as at March 31, 1972*)

UNION GAS LIMITED (incorporated under the Laws of Ontario) AND ITS SUBSIDIARIES

ASSETS	1973	1972
Properties (note 1):	*($000's)*	
Distribution systems, transmission lines, gas wells and gathering lines, gas storage facilities, base pressure gas, land and buildings, etc.—at cost	**$341,820**	$312,458
Less accumulated depreciation	**61,999**	58,065
	279,821	254,393
Current assets:		
Accounts receivable (note 3)	**27,940**	26,073
Inventories of merchandise, stores and spare equipment, valued at the lower of cost and replacement cost	**4,830**	4,691
Prepayments	**229**	174
Gas in underground storage, available for current sale—at cost	**2,597**	3,862
	35,596	34,800
Deferred and other assets:		
Mortgages receivable (note 3)	**4,352**	6,066
Investment in Canadian Arctic Gas Study Limited (note 4)	**1,175**	—
Unamortized discount and expenses on issues of long term debt	**1,516**	1,254
Deferred gas costs (note 5)	**4,656**	856
Other deferred charges	**237**	126
	11,936	8,302
	$327,353	$297,495

On behalf of the Board:

RON TODGHAM, Director

B. F. WILLSON, Director

(*See accompanying notes*)

LIABILITIES	1973	1972
Shareholders' equity:	*($000's)*	
Capital stock (note 7)—		
Preference shares with a par value of $50 each:		
Authorized—379,711 cumulative redeemable shares		
Issued —152,511 5½% Series A	**$ 7,626**	$ 7,799
— 90,000 6% Series B	**4,500**	4,500
—137,200 5% Series C	**6,860**	6,860
Common shares without par value:		
Authorized—22,000,000 shares		
Issued —15,111,705 shares	**31,346**	31,346
	50,332	50,505
Accumulated earnings retained for use in the business (note 6)	**54,715**	49,407
	105,047	99,912
Long term debt (note 8)	**141,891**	122,820
Deferred income taxes (note 2)	**43,171**	36,417
Current liabilities:		
Bank indebtedness	**10,352**	14,186
Accounts payable and accrued charges	**13,985**	12,413
Dividend payable	**2,418**	2,417
Income and other taxes payable	**2,257**	2,391
Accrued interest on long term debt	**2,945**	2,256
Long term debt instalments due within twelve months (note 8)	**5,287**	4,683
	37,244	38,346
	$327,353	$297,495

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended March 31, 1973
(*with comparative figures for the 1972 year*)
UNION GAS LIMITED AND ITS SUBSIDIARIES

	1973	1972
	($000's)	
Funds provided:		
Consolidated net income for the year	**$ 16,018**	$ 14,497
Add amounts deducted in arriving at net income which did not involve an outlay of funds—		
Depreciation and amortization	**7,208**	6,528
Deferred income taxes (note 2)	**6,754**	4,439
Total funds provided from operations	**29,980**	25,464
Proceeds from issue of long term debt	**24,383**	19,618
Common shares issued	**—**	38
	$ 54,363	$ 45,120
Funds applied:		
Net expenditure on properties	**$ 32,459**	$ 25,426
Retirement of long term debt	**5,751**	5,180
Dividends declared—common shares	**9,672**	8,990
—preference shares	**1,038**	1,046
Net advances (repayments) on mortgages receivable	**(1,714)**	254
Purchase of preference shares for cancellation	**173**	293
Investment in Canadian Arctic Gas Study Limited (note 4)	**1,175**	—
Deferred gas costs (note 5)	**3,800**	856
Miscellaneous (net)	**111**	(29)
Reduction in working capital deficit	**1,898**	3,104
	$ 54,363	$ 45,120

(*See accompanying notes*)

1. Properties and depreciation
The following is a summary analysis of the cost of properties:

	March 31 1973	March 31 1972
	($000's)	
Production	$ 7,482	$ 7,736
Storage	22,116	16,079
Transmission	103,067	97,314
Distribution	179,862	164,982
General	29,293	26,347
	$341,820	$312,458

Depreciation is provided on the straight-line basis at various rates based on periodic review by consultants of the useful service life of each class of property. Estimated useful lives of major property classifications, which are not, overall, in excess of industry averages, are as follows:

Transmission mains	75 years
Distribution mains	70 years
Buildings and service lines	50 years
Storage plant, compressors, meters, and purification, measuring and regulating equipment	30 to 40 years

Total depreciation provided for the year ended March 31, 1973 amounted to $7,033,000 ($6,374,000 in the 1972 year). Of this amount $6,596,000 was charged directly as an operating expense and the remainder of $437,000 was allocated partly to other expense accounts and partly to property accounts.

Included in the properties account are costs of $977,000 ($1,071,000 at March 31, 1972) related to projects in progress under the Company's program of exploring for and developing natural gas and oil. Exploration activities have been carried out in Ontario and Western Canada. All exploratory and development costs under the program are accumulated by geographical areas of interest until the results of each project are determined. Costs related to producing areas are transferred to the appropriate property accounts and depreciation is provided at rates recommended by consultants. Costs related to areas determined to be of no interest are written off to income. Exploratory lease rentals not related to the program are charged against income as incurred.

Cost of properties also includes accumulated premiums of $1,778,009 paid on acquisition of subsidiary companies.

Interest charged to construction during the year amounted to $432,000 ($162,000 in the 1972 year).

2. Income taxes
As a result of claiming allowances for income tax purposes for depreciation, certain construction overheads, natural gas exploration and deferred gas costs in excess of amounts charged in arriving at income for the year, income taxes payable will be less than the current year's provision by $6,754,000 ($4,439,000 in the 1972 year) and accordingly this amount is included in the balance sheet in the item "Deferred income taxes". Income taxes are lower by $726,000 in the 1973 fiscal year ($766,000 in the 1972 year) as a result of a 7% reduction in federal tax rates from July 1, 1971 to December 31, 1972. Income taxes have also been reduced in the year by $812,000 ($450,000 in the 1972 year) in respect of the 5% investment tax credit granted by the Province of Ontario applicable to eligible purchases of new plant from April 26, 1971 to March 31, 1973.

3. Accounts receivable and mortgages receivable
Accounts receivable include $9,275,000 ($9,181,000 in the 1972 year) in merchandise finance plan accounts of which $4,872,000 ($5,162,000 in the 1972 year) is not due within twelve months. Mortgages receivable include $1,200,000 ($1,636,000 in the 1972 year) in principal instalments due within twelve months.

4. Investment in Canadian Arctic Gas Study Limited
In December, 1972, the Company became one of 25 members of Canadian Arctic Gas Study Limited whose purpose is to obtain the necessary regulatory approvals for the construction of a high pressure gas transmission pipeline from the northern regions of Canada and Alaska to markets in Canada and the United States.

The Company's contributions to the Study are being deferred in the accounts until the feasibility of the project has been determined and necessary regulatory approvals obtained. If the project is approved by the National Energy Board and other applicable regulatory bodies, the Company at that time will have an option to either convert contributed funds to a pro rata shareholding in Canadian Arctic Gas Study Limited or receive repayment of them in full. On the other hand, if the project is not approved, costs incurred by the Company would be charged against operations at that time.

5. Deferred gas costs
To enable the Company's major supplier, TransCanada PipeLines Limited, to finance expansion of pipeline facilities necessary for delivery of future volumes of gas, the Company agreed with TransCanada to pay an increased rate of 2.1 ¢ per mcf for gas purchased from January 1, 1972 until such time as rates approved by the National Energy Board shall become effective. The amount of the additional gas cost to March 31, 1973 has been deferred in accordance with approval received from the Ontario Energy Board but the basis of amortization of the deferred costs has not yet been determined by that Board; no amortization has therefore been recorded to date.

Receipt of additional volumes of gas, made possible by the agreement to pay the increased rate, commenced November 1, 1972 under the terms of a new 20-year contract with TransCanada. If the amortization of the deferred costs were determined, as a minimum, by reference to the additional volume received to March 31, 1973 in relation to the total additional volumes to be received over the life of this new contract with TransCanada, amortization of approximately $70,000 would have been recorded in the fiscal year ended March 31, 1973. This illustrative figure is not intended as a prediction of the Board's ultimate decision; various factors are considered by the Board in such matters and it may well determine that a different starting date and shorter period for amortization would be reasonable in all the circumstances.

6. Accumulated earnings retained for use in the business
The trust deeds and indentures providing for the issue of the Company's bonds and debentures contain certain restrictions regarding the amount that may be paid as dividends. At March 31, 1973 accumulated earnings retained for use in the business in the amount of $31,503,000 were free from limitation under the most stringent of these restrictions.

7. Capital stock
(a) The preference shares are redeemable as follows:

Series A—at $51.00 per share up to March 30, 1976 and thereafter at $50.50 per share,

Series B—at $55.00 per share at any time,

Series C—at $51.50 per share up to March 30, 1977, then reducing to $51.00 to March 30, 1981 and $50.50 per share thereafter.

Under the conditions attaching to the Series A and Series C preference shares, the Company is committed to purchase shares for cancellation if their market prices fall to par or below as follows:

Series A—in amounts up to $170,000 annually,
Series C—in amounts up to $140,000 annually.

As required by Supplementary Letters Patent, a special allocation of retained earnings is shown on the books of the Company to reflect this commitment. During the year ended March 31, 1973, in compliance with the foregoing conditions, 3,470 Series A shares with a par value of $173,500 were purchased and cancelled.

(b) 188,750 common shares have been reserved under stock option plans for senior employees. Amounts actually under option are as follows:

Number of shares	Option price	Market price at date of option	Date of expiry of option
97,050	$13.05	$14½	April 6, 1978
25,000	13.90	14⅝	May 31, 1981
4,500	13.06	13¾	December 1, 1981

If all the foregoing outstanding options were exercised, there would be no material dilution of earnings per share.

8. Long term debt

Details of this debt as at March 31, 1973 and 1972 are as follows (thousands of dollars):

	Total outstanding	Current liability	Long term portion 1973	Long term portion 1972
First mortgage and collateral trust bonds:				
5% sinking fund bonds, Series "B", due December 1, 1977	$ 5,368	$ 893	$ 4,475	$ 5,379
5¼% sinking fund bonds, Series "C", due January 15, 1978	8,697	1,097	7,600	8,800
6% sinking fund bonds, Series "D", due October 1, 1977	3,444	—	3,444	3,741
	17,509	1,990	15,519	17,920
Debentures:				
5¾% sinking fund debentures, 1957 Series, due January 15, 1975	3,296	446	2,850	3,300
5½% sinking fund debentures, 1958 Series, due December 1, 1977	5,194	394	4,800	5,200
5¾% sinking fund debentures, 1961 Series, due July 15, 1981	9,550	550	9,000	9,550
5¾% sinking fund debentures, 1963 Series, due August 15, 1983	11,050	500	10,550	11,050
5⅞% sinking fund debentures, 1965 Series, due September 1, 1985	13,000	500	12,500	13,000
7% sinking fund debentures, 1967 Series, due January 5, 1987	13,557	457	13,100	13,600
7¾% serial debentures, 1968 Series, due August 1, 1973-76	2,200	450	1,750	2,200
7¾% sinking fund debentures, 1968 Series, due August 1, 1988	17,000	—	17,000	17,000
9⅛% sinking fund debentures, 1970 Series, due April 1, 1990	10,000	—	10,000	10,000
8% sinking fund debentures, 1971 Series, due November 15, 1991	20,000	—	20,000	20,000
8⅜% sinking fund debentures, 1972 Series, due November 15, 1992	15,000	—	15,000	—
8% sinking fund debentures, 1972 U.S. Series, due November 15, 1992	9,822	—	9,822	—
	129,669	3,297	126,372	104,900
Total amounts per balance sheet	$147,178	$ 5,287	$141,891	$122,820

The 9⅛% sinking fund debentures, 1970 Series, are repayable at the holders' option on April 1, 1975.

The principal amounts of bonds and debentures required to be retired through sinking funds or serial redemptions during the next five fiscal years ending March 31, are as follows: 1974—$5,287,000; 1975—$8,254,000; 1976—$5,504,000; 1977—$6,104,000; 1978—$15,757,000.

On April 30, 1973, the Company agreed to issue on June 1, 1973 $20,000,000 principal amount of 1973 Series 8¼% sinking fund debentures.

9. Capital expenditures

Capital expenditures of approximately $33,000,000 are planned for the fiscal year ending March 31, 1974.

10. Employee pension plan

The unfunded past service obligation which resulted from revisions of the Company's pension plan as of January 1, 1966, 1970 and 1971 is being funded and written off against operations in annual amounts of $284,000 over a period of fifteen years to 1985 based on actuarial advice. The estimated unfunded balance at March 31, 1973 was approximately $1,964,000.

11. Directors' and senior officers' remuneration

Direct remuneration of directors and senior officers totalled $423,000 during the year ended March 31, 1973.

12. Name change

On October 1, 1972 the name of the Company was changed to Union Gas Limited.

AUDITORS' REPORT

To the Shareholders of Union Gas Limited:

We have examined the consolidated balance sheet of Union Gas Limited and its subsidiaries as at March 31, 1973 and the consolidated statements of income, accumulated earnings retained for use in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

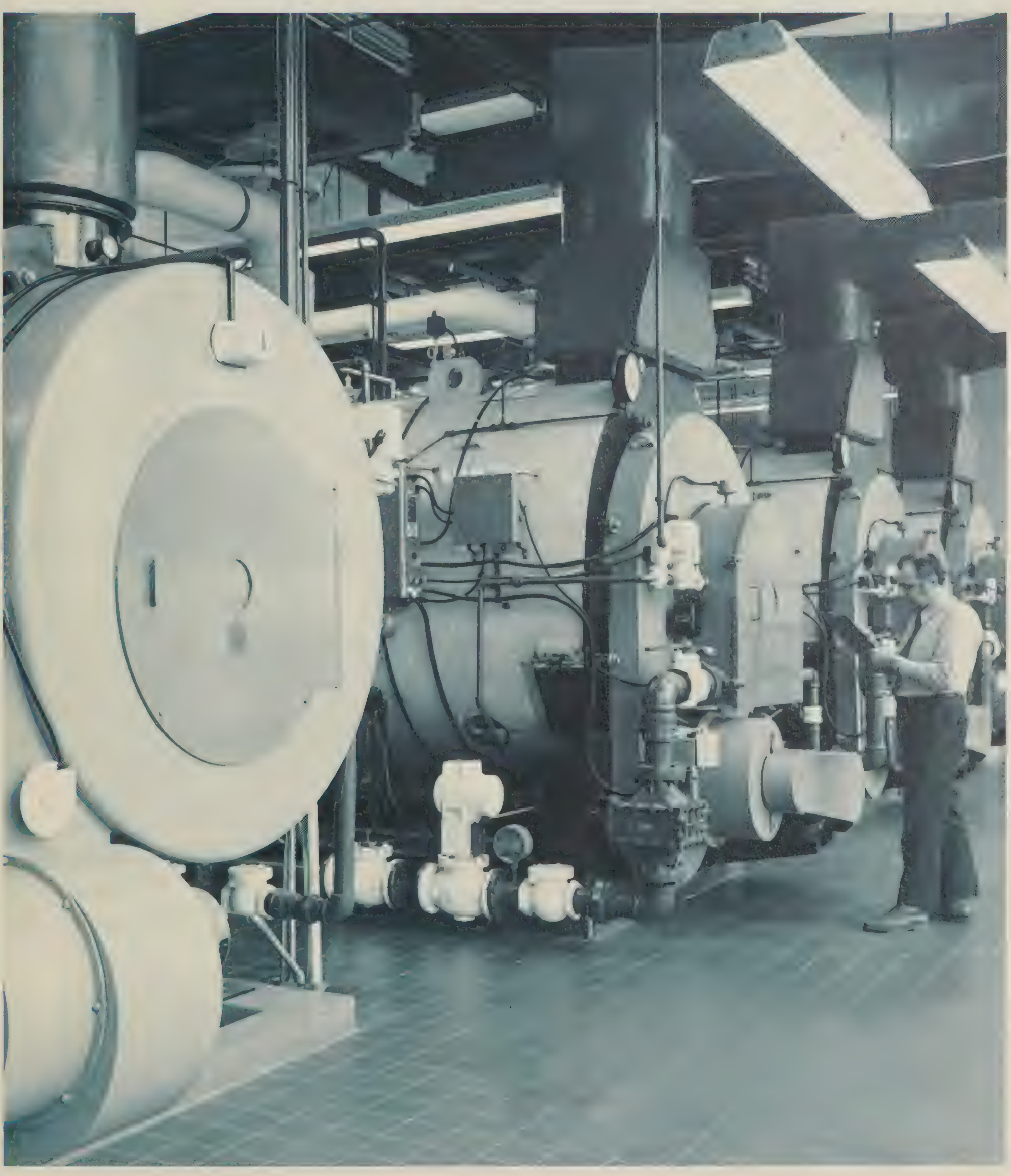
In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Toronto, Canada, May 11, 1973

Chartered Accountants

Four gas-fired boilers at the city of Hamilton sewage treatment plant are utilized for space heating and also for maintaining the required operating temperature for the digestion process. These boilers, which operate on natural gas supplemented by by-product gas, are each capable of producing 10,000 pounds of steam per hour.



FINANCIAL AND OPERATING STATISTICS—1963-1973

Fiscal years ended March 31

UNION GAS LIMITED AND ITS SUBSIDIARIES

	1973	1972	1971
Revenues, Expenses and Net Earnings (*$000's*)			
Revenues:			
Gas sales	**$151,416**	$131,577	$122,326
Other income	**13,105**	11,845	10,257
Total revenue	**164,521**	143,422	132,583
Expenses:			
Cost of gas sent out	**86,453**	72,166	63,383
Operating and maintenance expenses	**32,340**	29,650	29,396
Depreciation and amortization of natural gas conversion costs	**6,596**	5,977	5,471
Interest on long term debt and other debt	**10,229**	9,281	8,468
Total expenses	**135,618**	117,074	106,718
Income before income taxes	**28,903**	26,348	25,865
Income taxes	**12,885**	11,851	13,126
Net income before minority interest	**16,018**	14,497	12,739
Less: Minority shareholders' interest	—	—	—
Net income	**16,018**	14,497	12,739
Preference share dividends	**1,038**	1,046	1,060
Net earnings applicable to common shares	**$ 14,980**	$ 13,451	$ 11,679
Earnings per common share (*A*)	**99.1¢**	89.0¢	77.3¢
Dividends declared per common share	**64.0¢**	59.5¢	58.0¢
Source and Application of Funds (*$000's*)			
Source of funds:			
Net income for year	**$ 16,018**	$ 14,497	$ 12,739
Depreciation and amortization	**7,208**	6,528	6,009
Deferred income taxes	**6,754**	4,439	4,700
Total funds provided from operations	**29,980**	25,464	23,448
Transfer from current to deferred income taxes	—	—	—
Proceeds from issue of long term debt	**24,383**	19,618	9,847
Common share issues	—	38	42
Preference share issues	—	—	—
Refund of deposit with trustee for bondholders	—	—	—
Special refundable tax	—	—	—
Total	**$ 54,363**	$ 45,120	$ 33,337
Application of funds:			
Net expenditure on Property Account	**$ 32,459**	$ 25,426	$ 28,215
Dividends declared—common shares	**9,672**	8,990	8,761
Dividends declared—preference shares	**1,038**	1,046	1,060
Retirement of long term debt	**5,751**	5,180	4,660
Net advances on mortgages receivable	**(−)1,714**	254	(−)1,192
Purchase of preference shares for cancellation	**173**	293	44
Deferred gas costs	**3,800**	856	—
Investment in Canadian Arctic Gas Study Limited	**1,175**	—	—
Miscellaneous items	**111**	(−)29	72
Increase in working capital	**1,898**	3,104	(−)8,283
Total	**$ 54,363**	$ 45,120	$ 33,337

Note: (A) On basis of the weighted average number of shares outstanding during the year.

1970	1969	1968	1967	1966	1965	1964	1963
$110,232	$ 94,254	$ 87,882	$ 77,404	$ 66,973	$ 59,038	$ 50,834	$ 48,614
9,339	7,605	7,397	6,363	5,446	5,000	4,715	3,864
119,571	101,859	95,279	83,767	72,419	64,038	55,549	52,478
54,992	44,593	40,375	34,036	28,481	24,215	20,176	19,002
27,395	23,648	22,498	20,534	18,593	16,798	15,936	14,982
5,091	5,300	6,154	5,811	5,318	4,800	4,354	4,130
7,821	6,602	6,014	5,586	4,652	4,386	4,277	4,079
95,299	80,143	75,041	65,967	57,044	50,199	44,743	42,193
24,272	21,716	20,238	17,800	15,375	13,839	10,806	10,285
12,327	10,857	10,215	8,966	7,708	7,273	5,531	5,299
11,945	10,859	10,023	8,834	7,667	6,566	5,275	4,986
—	—	1	1	1	1	7	42
11,945	10,859	10,022	8,833	7,666	6,565	5,268	4,944
1,061	1,062	1,066	1,079	1,088	949	738	738
$ 10,884	$ 9,797	$ 8,956	$ 7,754	$ 6,578	$ 5,616	$ 4,530	$ 4,206
72.2¢	65.2¢	59.8¢	51.8¢	44.0¢	38.4¢	33.3¢	30.9¢
52.0¢	46.0¢	34.0¢	27.0¢	23.3¢	20.8¢	20.0¢	16.7¢
$ 11,945	$ 10,859	$ 10,022	$ 8,833	$ 7,666	$ 6,565	$ 5,268	$ 4,944
5,584	5,762	6,593	6,267	5,721	5,177	4,736	4,492
3,745	3,240	2,366	1,840	2,127	2,102	1,617	1,202
21,274	19,861	18,981	16,940	15,514	13,844	11,621	10,638
—	1,640	734	—	—	750	—	—
—	19,646	—	14,865	14,877	—	13,827	—
795	49	702	—	—	7,269	—	—
—	—	—	—	—	7,000	—	—
—	—	599	—	778	—	—	—
—	619	(–)35	(–)584	—	—	—	—
$ 22,069	$ 41,815	$ 20,981	$ 31,221	$ 31,169	$ 28,863	$ 25,448	$ 10,638
$ 17,836	$ 20,726	$ 19,733	$ 12,824	$ 18,542	$ 21,103	$ 15,656	$ 10,936
7,835	6,912	5,099	4,038	3,490	3,048	2,719	2,266
1,061	1,062	1,066	1,079	1,088	949	737	737
4,478	4,428	4,003	5,378	3,678	3,125	3,175	2,418
896	(–)22	1,006	1,821	1,076	580	496	227
24	—	170	310	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
49	124	(–)13	258	(–)5	387	974	192
(–)10,110	8,585	(–)10,083	5,513	3,300	(–)329	1,691	(–)6,138
$ 22,069	$ 41,815	$ 20,981	$ 31,221	$ 31,169	$ 28,863	$ 25,448	$ 10,638

Statistics—continued
Fiscal years ended March 31
(MCF MEANS THOUSAND CUBIC FEET) (MMCF MEANS MILLION CUBIC FEET)

	1973	1972	1971
Customers (end of year)			
Residential	**323,042**	309,276	298,322
Commercial	**35,131**	34,309	33,599
Industrial	**3,510**	3,409	3,318
Other utilities	**8**	12	11
Total	**361,691**	347,006	335,250
Gas Sales— MMCF			
Residential	**44,294**	40,389	39,695
Commercial	**31,881**	26,736	23,985
Industrial	**121,863**	102,037	94,171
Other utilities	**4,658**	4,089	3,570
Total	**202,696**	173,251	161,421
Gas Sales Revenue—(*$000's*)			
Residential	**$ 50,561**	$ 46,193	$ 45,289
Commercial	**29,405**	25,063	22,756
Industrial	**68,652**	57,883	52,120
Other utilities	**2,798**	2,438	2,161
Total	**$151,416**	$131,577	$122,326
Average Gas Use per Customer—MCF			
Residential	**140.9**	133.5	135.7
Commercial	**925.8**	790.5	730.0
Gas Balance—MMCF			
Gas produced from Company wells	**1,888**	1,661	4,523
Gas purchased:			
Ontario sources	**6,094**	8,264	11,485
Other sources	**200,736**	166,295	147,722
Gas received under storage, transmission, etc., contracts, less purchased in place	**118,672**	113,543	101,940
Total all gas	**327,390**	289,763	265,670
Gas into storage	**47,526**	41,723	43,205
Gas out of storage	**46,123**	48,769	37,734
Net gas into or out of (−) storage	**1,403**	(−)7,046	5,471
Total gas sent out	**325,987**	296,809	260,199
Gas sales	**202,696**	173,251	161,421
Gas delivered under storage, transmission, etc., contracts	**118,931**	118,069	97,169
Company use	**1,232**	1,292	1,101
Unbilled, unaccounted for, etc.	**3,128**	4,197	508
	325,987	296,809	260,199
Maximum day send-out—MCF	**1,809,654**	1,795,959	1,637,682
Gas out of storage on maximum day—MCF	**900,121**	1,022,249	856,531
Degree day deficiency	**7,127**	7,045	7,100

1970	1969	1968	1967	1966	1965	1964	1963
290,205	281,155	270,959	261,610	252,725	243,661	234,310	223,876
32,501	31,175	29,769	28,364	27,405	26,222	24,751	23,438
3,161	2,993	2,890	2,668	2,453	2,305	2,084	1,920
10	10	9	9	9	9	9	8
325,877	315,333	303,627	292,651	282,592	272,197	261,154	249,242
39,274	35,911	36,217	33,456	30,604	28,546	25,101	25,424
21,748	17,858	16,541	14,714	12,322	10,477	8,729	8,205
73,667	55,943	44,715	35,220	27,137	21,048	17,722	15,279
3,229	2,799	2,626	2,374	2,053	1,762	1,316	1,038
137,918	112,511	100,099	85,764	72,116	61,833	52,868	49,946
$ 44,690	$ 41,004	$ 41,173	$ 38,126	$ 35,003	$ 32,670	$ 28,864	$ 28,945
20,934	17,552	16,538	14,813	12,535	10,764	9,032	8,479
42,681	34,019	28,605	23,062	18,234	14,590	12,161	10,577
1,927	1,679	1,566	1,403	1,201	1,014	777	613
$110,232	$ 94,254	$ 87,882	$ 77,404	$ 66,973	$ 59,038	$ 50,834	$ 48,614
138.2	130.6	136.6	130.8	124.1	120.0	110.2	116.2
687.7	591.9	573.5	532.4	462.7	415.8	365.0	361.8
2,764	3,759	2,585	4,183	3,957	3,882	4,522	5,312
7,987	7,251	9,359	10,608	8,258	8,447	9,701	9,979
115,525	109,346	91,034	83,215	70,293	50,675	42,140	32,458
107,058	44,044	24,931	21,738	16,689	13,712	13,518	9,550
233,334	164,400	127,909	119,744	99,197	76,716	69,881	57,299
32,850	33,633	30,864	34,026	28,171	19,457	25,982	21,252
45,209	29,765	30,320	25,121	18,233	23,892	23,173	25,764
–)12,359	3,868	544	8,905	9,938	(–)4,435	2,809	(–)4,512
245,693	160,532	127,365	110,839	89,259	81,151	67,072	61,811
137,918	112,511	100,099	85,764	72,116	61,833	52,868	49,946
106,091	45,435	24,864	22,255	14,874	16,259	11,135	9,805
950	1,068	862	878	761	995	663	530
734	1,518	1,540	1,942	1,508	2,064	2,406	1,530
245,693	160,532	127,365	110,839	89,259	81,151	67,072	61,811
,430,529	1,116,906	942,356	808,477	677,355	628,500	526,357	512,237
742,038	509,907	753,014	723,916	527,502	547,080	386,138	411,324
7,746	7,222	7,614	7,464	7,198	7,328	6,967	7,512

Statistics—continued
Fiscal years ended March 31

	1973	1972	1971
Condensed Consolidated Balance Sheet (*$000's*)			
Assets:			
Property Account	**$341,820**	$312,458	$290,127
Less accumulated depreciation	**61,999**	58,065	54,786
	279,821	254,393	235,341
Current assets	**35,596**	34,800	33,998
Deferred and other assets	**11,936**	8,302	6,993
Total	**$327,353**	$297,495	$276,332
Liabilities:			
Shareholders' equity—			
Preference shares	**$18,986**	$ 19,159	$ 19,452
Common shares	**31,346**	31,346	31,308
Retained earnings	**54,715**	49,407	44,946
Total	**105,047**	99,912	95,706
Minority shareholders' interest	**—**	—	—
Long term debt	**141,891**	122,820	108,000
Deferred income taxes	**43,171**	36,417	31,978
Current liabilities	**37,244**	38,346	40,648
Total	**$327,353**	$297,495	$276,332
Equity Per Common Share			
No par value common shares outstanding (*000's*)	**15,112**	15,112	15,108
Equity per share	**$ 5.70**	$ 5.34	$ 5.05
Property Account (*$000's*)			
Gross book value beginning of year	**$312,458**	$290,127	$264,100
Additions:			
Plant acquisitions and additions	**24,382**	19,278	23,169
Plant replacements	**8,177**	6,151	4,923
Gross additions and replacements	**32,559**	25,429	28,092
Retirements:			
Gross value of plant retired	**3,197**	3,098	2,065
Net additions to Property Account	**29,362**	22,331	26,027
Gross book value end of year	**$341,820**	$312,458	$290,127
Miles of pipeline			
Gathering and storage lines	**465**	481	499
Transmission lines	**1,881**	1,862	1,842
Distribution lines	**6,517**	6,294	6,058
Total	**8,863**	8,637	8,399

1970	1969	1968	1967	1966	1965	1964	1963
$264,100	$248,609	$229,874	$211,593	$200,293	$183,254	$163,589	$149,443
51,124	48,022	44,387	39,444	34,938	30,958	27,458	24,486
212,976	200,587	185,487	172,149	165,355	152,296	136,131	124,957
32,805	33,909	29,820	32,405	25,675	20,257	20,484	16,173
8,119	7,311	7,723	7,491	4,929	4,750	4,020	3,525
$253,900	$241,807	$223,030	$212,045	$195,959	$177,303	$160,635	$144,655
$ 19,496	$ 19,520	$ 19,520	$ 19,690	$ 20,000	$ 20,000	$ 13,000	$ 13,000
31,266	30,471	30,422	29,720	29,720	29,720	22,451	22,451
42,028	38,979	36,198	32,341	28,625	25,537	22,968	20,685
92,790	88,970	86,140	81,751	78,345	75,257	58,419	56,136
—	—	9	8	7	6	5	1,370
102,660	107,138	91,566	95,569	85,947	74,625	77,750	66,925
27,278	23,533	18,653	15,553	13,713	11,586	8,734	7,117
31,172	22,166	26,662	19,164	17,947	15,829	15,727	13,107
$253,900	$241,807	$223,030	$212,045	$195,959	$177,303	$160,635	$144,655
15,104	15,028	15,023	14,955	14,955	14,955	13,595	13,595
$ 4.85	$ 4.62	$ 4.43	$ 4.15	$ 3.90	$ 3.69	$ 3.34	$ 3.17
$248,609	$229,874	$211,593	$200,293	$183,254	$163,589	$149,443	$140,275
13,286	16,720	16,248	10,421	15,323	18,569	12,792	7,123
4,721	4,131	3,628	2,535	3,386	2,580	2,967	3,877
18,007	20,851	19,876	12,956	18,709	21,149	15,759	11,000
2,516	2,116	1,595	1,656	1,670	1,484	1,613	1,832
15,491	18,735	18,281	11,300	17,039	19,665	14,146	9,168
$264,100	$248,609	$229,874	$211,593	$200,293	$183,254	$163,589	$149,443
572	605	624	627	627	642	663	685
1,800	1,742	1,677	1,630	1,592	1,560	1,501	1,403
5,821	5,591	5,419	5,240	5,061	4,846	4,644	4,303
8,193	7,938	7,720	7,497	7,280	7,048	6,808	6,391

UNION GAS LIMITED
Head Office: 50 Keil Drive North, Chatham, Ontario

Transfer Agents

Preference Shares
5½% Series A
Canada Permanent Trust Company, Toronto, Montreal, Winnipeg, Calgary and Vancouver.

6% Series B
Canada Permanent Trust Company, Toronto, Montreal and Calgary.

5% Series C
Canada Permanent Trust Company, Toronto, Montreal, Winnipeg and Calgary.

Common Shares
Canada Permanent Trust Company, Toronto, Montreal and Calgary.
The Chase Manhattan Bank, New York.

Registrars

Preference Shares
5½% Series A
Canada Permanent Trust Company, Toronto, Montreal, Winnipeg, Calgary and Vancouver.

6% Series B
Canada Permanent Trust Company, Toronto, Montreal and Calgary.

5% Series C
Canada Permanent Trust Company, Toronto, Montreal, Winnipeg and Calgary.

Common Shares
Crown Trust Company, Toronto and Montreal.
Canada Permanent Trust Company, Calgary.
Chemical Bank, New York.

Dividend Disbursing Agent

Preference Shares, Series A, B and C, and Common Shares
Canada Permanent Trust Company, Toronto.

Trustees for Bond and Debenture Issues

First Mortgage Bonds
Canada Permanent Trust Company, Toronto.

1968 Series, 1970 Series, 1971 Series and 1972 Series Debentures
The Royal Trust Company, Toronto.

Debentures other than 1968 Series, 1970 Series, 1971 Series and 1972 Series
Canada Permanent Trust Company, Toronto.

Produced in Canada by Southam Murray

Plastic pipe is now being utilized in certain locations. At Wallaceburg, for example, it is being used to line corroded steel pipe which, otherwise, would have to be dug up and replaced. Plastic pipe is proving to be less expensive and easier to handle than conventional steel pipe for some applications.

SYSTEM MAP ▶

[illegible] now being [illegible] in certain [illegible] however, it is [illegible] corroded steel pipe [illegible] would have to be dug up [illegible] Plastic pipe is proving to be [illegible] and easier to handle than [illegible] steel pipe for some applications.

SYSTEM MAP ▶

UNION GAS
LIMITED

ANNUAL REPORT 1973

w of the Company's of return, that total revenues exceed a fair and reasonable level. The OEB has set October 30, 1973 as the date for hearing the Company's application.

The Company has now filed with the Ontario Energy Board the exhibits and pre-hearing testimony supporting its main application for the determination of its rate base and allowable rate of return. Union has been advised by the Board that due to pressure of other assignments the hearing of this full rate proceeding will not commence until January 1974.

The Alberta Energy Resources Conservation Board announced on October 10, 1973 that it had advised the Alberta Government that any action that might affect the delivery of gas to Eastern Canada under a permit granted in 1969 to Consolidated Natural Gas Limited would not be just and reasonable under the circumstances. This gas has been acquired by TransCanada and is being sold to Union and other customers of TransCanada under 20-year gas purchase contracts. Union actively participated in the Conservation Board hearing concerning the question of the continuation of the Consolidated permit and took the position, as now agreed to by the Conservation Board, that the delivery of this gas should not be interfered with. As a result of this decision it now appears that TransCanada will be able to deliver to Union the full amounts called for under our gas supply contracts.

Enclosed for holders of Union Gas common shares is the regular quarterly dividend of 16¢ per share, payable November 1, 1973 to shareholders of record October 5, 1973.

B. F. Willson
President and Chief Executive Officer

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For checking

Six-month Report to Shareholders

including financial information
for the six-month and
twelve-month periods ended
September 30, 1973 and 1972

UNION GAS LIMITED

October 29, 1973

UNION GAS LIMITED

Interim statement of income*

	Six months ended September 30 1973	Six months ended September 30 1972**	Twelve months ended September 30 1973**	Twelve months ended September 30 1972**
	(thousands of dollars)			
Gas sales	$ 59,923	$ 54,154	$157,185	$139,235
Other income	6,590	6,129	13,565	12,789
	66,513	60,283	170,750	152,024
Cost of gas sent out	37,179	31,500	92,132	78,275
Other operating and maintenance costs	14,286	13,731	29,433	27,826
Property and capital taxes	1,815	1,757	3,520	3,352
Depreciation	3,662	3,298	6,960	6,287
Interest and expense on long term debt	5,623	4,159	10,399	8,260
Other interest expense	316	478	1,132	1,318
	62,881	54,923	143,576	125,318
Income before income taxes	3,632	5,360	27,174	26,706
Income taxes	1,736	2,384	12,237	12,043
Net income	1,896	2,976	14,937	14,663
Dividends on preference shares	509	520	1,026	1,040
Earnings applicable to common shares	$ 1,387	$ 2,456	$ 13,911	$ 13,623
Earnings per common share	9.2¢	16.3¢	92.1¢	90.2¢

*This statement is unaudited and subject to year-end adjustments, and is not to be taken as a prediction for the fiscal year as the business is seasonal in nature and influenced by weather conditions.

**Reflects short term Provincial and Federal income tax reductions which expired prior to April 1, 1973 as follows:

$ Nil	$ 282	$ 1,255	$ 1,203

NOTE: Earnings per common share are calculated on the weighted average number outstanding in the periods.

UNION GAS LIMITED

Interim statement of source and application of funds

	Six months ended September 30 1973	1972	Twelve months ended September 30 1973	1972
	(thousands of dollars)			
Funds Provided:				
Net income for period	$ 1,896	$ 2,976	$ 14,937	$ 14,663
Add amounts deducted in arriving at net income, which did not involve an outlay of funds—				
Depreciation and amortization	3,999	3,608	7,599	6,845
Deferred income taxes	2,310	2,528	6,536	5,188
Total funds provided from operations	8,205	9,112	29,072	26,696
Long term debt issued	20,000	–	44,821	20,000
Common shares issued	–	–	–	38
	$ 28,205	$ 9,112	$ 73,893	$ 46,734
Funds Applied:				
Net expenditure on properties	$ 15,004	$ 15,869	$ 31,594	$ 29,730
Retirement of long term debt	2,604	2,501	5,854	5,454
Dividends declared—common shares	4,836	4,835	9,673	9,444
—preference shares	509	520	1,026	1,040
Net advances (repayments) on mortgages receivable	(739)	(897)	(1,556)	(1,791)
Purchase of preference shares for cancellation	484	69	588	81
Investment in Canadian Arctic Gas Study Limited	344	–	1,519	–
Long term debt issue costs	380	–	819	392
Deferred gas costs	735	1,948	2,587	2,804
Miscellaneous	(3)	153	(46)	140
Increase (decrease) in working capital	4,051	(15,886)	21,835	(560)
	$ 28,205	$ 9,112	$ 73,893	$ 46,734

To the Shareholders:

For the six month period ended September 30, 1973, net income was $1,896,000 compared with $2,976,000 for the same period last year. Earnings per common share were 9.2¢ compared with 16.3¢ for the six months ended September 30, 1972. The decline in earnings reflects milder weather than a year ago; increased gas costs; sharply higher interest expense due to increased rates and larger borrowings; and the discontinuance of short term income tax credits which had contributed $282,000 to the reported earnings for the 1972 period.

Union has experienced very satisfactory growth in the number of customers served. The total at September 30, 1973 was 365,981, up 17,431 from the figure of one year earlier. The beneficial impact of this growth has not yet been felt fully, largely because of the milder than normal weather.

Nevertheless, Union's sales during the period increased by 6.6 billion cubic feet to 84.6 billion cubic feet, a rise of 8.5% over sales in the same six months of 1972. Almost all of the increase resulted from growth in sales to industrial customers, particularly in the petrochemical, steel, automotive and construction related industries. This reflects the healthy state of the Southwestern Ontario economy generally.

Cost of gas sent out rose by 18.0% compared with the 1972 period, offsetting the improvement that would otherwise have resulted from the sales increase.

The Company's business is seasonal in nature, and the results for the first six months of the fiscal year, from April to September, should not be taken as representative of the full year's operating results. The accompanying statements show that net income for the twelve months ended September 30, 1973 was $14,937,000, which compares favourably with $14,663,000 reported for the prior twelve month period.

The capital expenditure program for the current fiscal year is proceeding well, and it is now anticipated that property additions and replacements, primarily required to meet the increasing winter demands of the 250 communities in the service territory, will total some $32,000,000. Included in the year's construction program is a new $3,400,000 compressor station near Woodstock, which will increase the delivery capacity of the main east-west transmission system by 93 million cubic feet a day, to a total maximum capability of 1.7 billion cubic feet daily. The higher capacity of the transmission system is required not only to meet the growing peak demands of Union's own customers, but also to provide for the transportation of increased volumes of gas under expanded contracts with both The Consumers' Gas Company and TransCanada PipeLines Limited.

As noted in Union's last interim report, TransCanada PipeLines, the Company's principal gas supplier, was authorized by the National Energy Board to charge higher rates, effective June 1, 1973. Union, in turn, received the approval of the Ontario Energy Board to increase its rates by a comparable amount, effective July 1, 1973.

Since then, TransCanada has been granted a further increase of 1.8¢ per mcf, effective September 1, and has applied to the NEB for a third increase, amounting to 5.2¢ per mcf, requesting that it become effective November 1, 1973.

Union Gas has applied to the Ontario Board for an interim increase in rates, in order to recover from its customers the higher costs that will result from the September 1 and anticipated November 1 increases in TransCanada's charges. These two increases are expected to cost Union an additional $16 million annually.

As was the case with the interim increase of 3.25¢ per mcf granted Union by the Ontario Energy Board in June 1973, the current application contains provision that the increase will be refundable in the event the OEB should de-